TPDS 5

Tuesday, August 27, 2013 11:51 AM

INTERMEDIATE TERM TRADING PLAN
Time Frame: Daily Chart
Primary Focus: Trade the intermediate term price swings
Typical Trade Duration: Several Weeks - Months

BULLISH CONDITIONS (CABLE/FIBER)
- Seasonal tendency to see a bullish foreign currency market.
- Interest rates (bond yields) are moving higher, the market seeks higher yield.
- US Dollar is weakening, risk is on.
- Treasury Notes are declining (they have an inverse relationship to the bond yields).
- COT - Commercials are net long or aggressively reducing their short positions.
- Sentiment is oversold on a daily Williams %R basis.
- Stock indices (S&P 500, DOW, NAZDAQ) are firm/bullish on daily chart.
- Commodities are bullish - CRB Index firm/bullish.
- Gold & Oil are firm/bullish.

Firm: Demonstrating an unwillingness to go lower. Trading at key support levels, bottom formations, rejections at the lows indicating that it is strong or trading bullishly.

BEARISH CONDITIONS (CABLE/FIBER)
- Seasonal tendency to see a bearish foreign currency market.
- Interest rates (bond yields) are moving lower, the market shuns lower yield.
- US Dollar is strengthening, risk is off.
- Treasury Notes are rising (they have an inverse relationship to the bond yields).
- COT - Commercials are net short or aggressively increasing shorts.
- Sentiment is overbought on a daily Williams %R basis.
- Stock indices (S&P 500, DOW, NAZDAQ) are soft/bearish on daily chart.
- Commodities are bearish - CRB Index soft/bearish.
- Gold & Oil are soft/bearish.

Soft: Trading at key resistance levels, topping formations, rejections at the highs indicating that it is soft or trading bearishly.

ANTICIPATORY STAGE
1. Identify monthly, weekly, & daily key S/R levels.
2. While bullish seasonally, stalk bullish yield (2 yr, 5 yr, & 10 yr) divergence.
3. While bearish seasonally, stalk bearish yield (2 yr, 5 yr, & 10 yr) divergence.
4. Monitor lows in the USDX vs. highs in Cable/Fiber.
5. Monitor highs in the USDX vs. lows in Cable/Fiber.
6. Compare lows in Cable vs. lows in Fiber.
7. Compare highs in Cable vs. highs in Fiber.
8. Watch stock indices (S&P 500, DOW, NAZDAQ) for divergences.
9. Stalk longs when commercials are net long.
10. Stalk shorts when commercials are net short.
11. While in bullish conditions and **at support** and there is a **rapid drop (20% or more)** in **Open Interest** then **BUY.**
12. While in bearish conditions and **at resistance** and there is a **rapid increase (20% or more)** in **Open Interest** then **SELL**.
13. Expect sell signals when at key resistance & overbought on the daily chart.
14. Expect buy signals when at key support & oversold on the daily chart.

- Without these high time frame levels we will not be taking a trade. Wait for price to be traded to these levels.
- SMT divergence is used at key support & resistance levels.

EXECUTION STAGE

1. Identify monthly, weekly, & daily key S/R levels.
2. Determine if risk is on or off (for that particular session or day).
3. Determine what daily buy or sell program is in effect - swing points.
4. Transpose key levels to lower time frame charts.
5. Wait for price to trade to key higher time frame S/R levels.
6. Trade in the direction of market structure on a daily chart.
7. Use optimal trade entry on lower time frames around key S/R.
8. Ideally enter in major session opening [London Open or New York Open].
9. Use limit orders at 62%, 70.5%, and 79% Fibonacci levels.
10. Risk is limited to 2% maximum per trade.
11. Stop loss orders originate at 30 pips from entry price.
12. 50% is taken off the trade at 30 pips profit.
13. Move stop loss to break even at first profit.
14. Targets on balance are scaled at Fib extensions 127% and 162%.

- If we are risk on, the buy signals are a go. If we are risk off, the sell signals are a go.
- Daily buy program - are we trading off of key support and forming a swing point on the daily chart?
- Daily sell program - are we trading off of key resistance and forming a swing point on the daily chart?
- You can use any entry pattern you want with all the other criteria satisfied.
- Aussie (AUD/USD), Kiwi (NZD/USD), and Yen (USD/JPY) are good for the Asian session.
- You can take 30% off at the 127% extension, 10% off at the 162% extension, and another 10% at the 200% extension in terms of taking profits.
- You want at least 70%-80% in your trade as realized profit by the 127% or 162% Fibonacci levels. You **can** leave the rest to ride to the 200% level or even greater.
- These levels are based on the swing that you are trading.

Using T-Notes in conjunction with yield analysis:

- Below a weekly swing low has formed at the 128 big figure of the US 10 year t-note:



- There is also an old low highlighted by the blue arrow below:



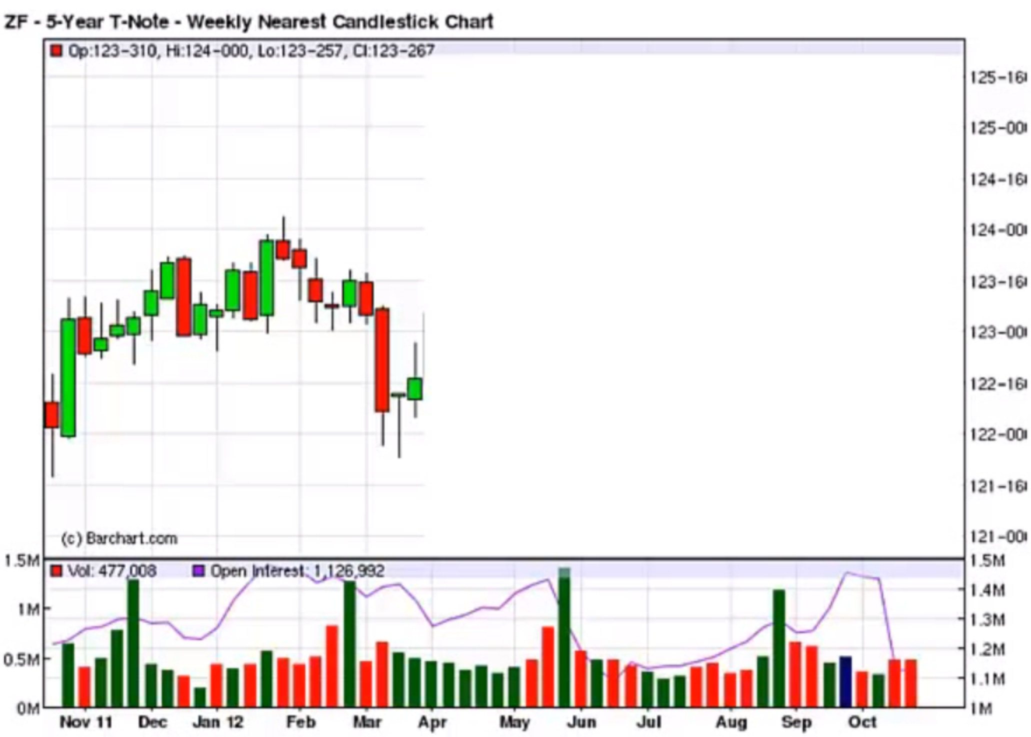
- Below highlights the rally up from the previous swing low:



- Open Interest is declining at an Optimal Trade Entry swing low at the big figure so we would expect prices on this T-Note to rally up. If T-Notes are rallying up, that means that the yield is going to be dropping. Below is what happened later on:



- As the March low was formed, we rallied up into the May/June time period which would be mirrored inversely with the yields dropping. This is going to be bearish for EUR/USD & GBP/USD, it will drag risk out of the market. A risk off scenario will unfold. There will be a flight to quality and we would see the US Dollar Index rally. Risky assets such as foreign currencies would be declining. This is further confirmed with seasonal tendencies.
- Below is the same scenario illustrated in the 5 year T-Note:



- Above there is a swing point low that is trading at the 122 big figure with Open Interest declining. Below is what actually unfolds much like the 10 year T-Note illustrated a few images above:



- If the futures contract is going higher we will see the US Dollar rally. The US Dollar will trade in the same direction that the treasuries lead it. Many times the US Dollar can lead treasuries as well. It's vice versa, one follows the other. Adding in the time of year theory of seasonal tendencies/influences where we see a Spring (March, April, May, & half of June) decline in foreign currencies/risk off scenario.

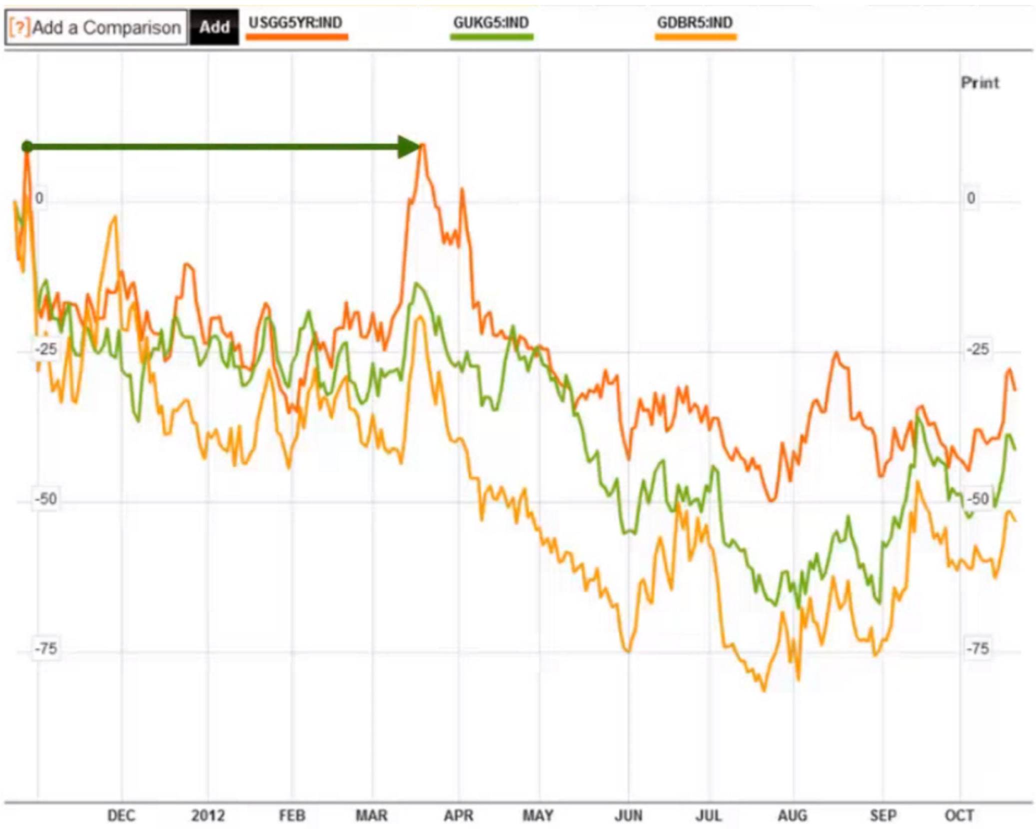
What does that look like in the bond yields?

- Below is the bond yield triad in this same time frame:



- The above image is on Bloomberg, but you can do a Google on "5 year US treasury government bond yield."
- UK 5 year bond yield.
- German 5 year bond yield.
- USGG5YR:IND (US 5 year bond yield), GUKG5:IND (UK 5 year bond yield), and GDBR5:IND (German 5 year bond yield).
- The below 3 charts show a divergence between the 3 at the same time frame as the t-note charts above:

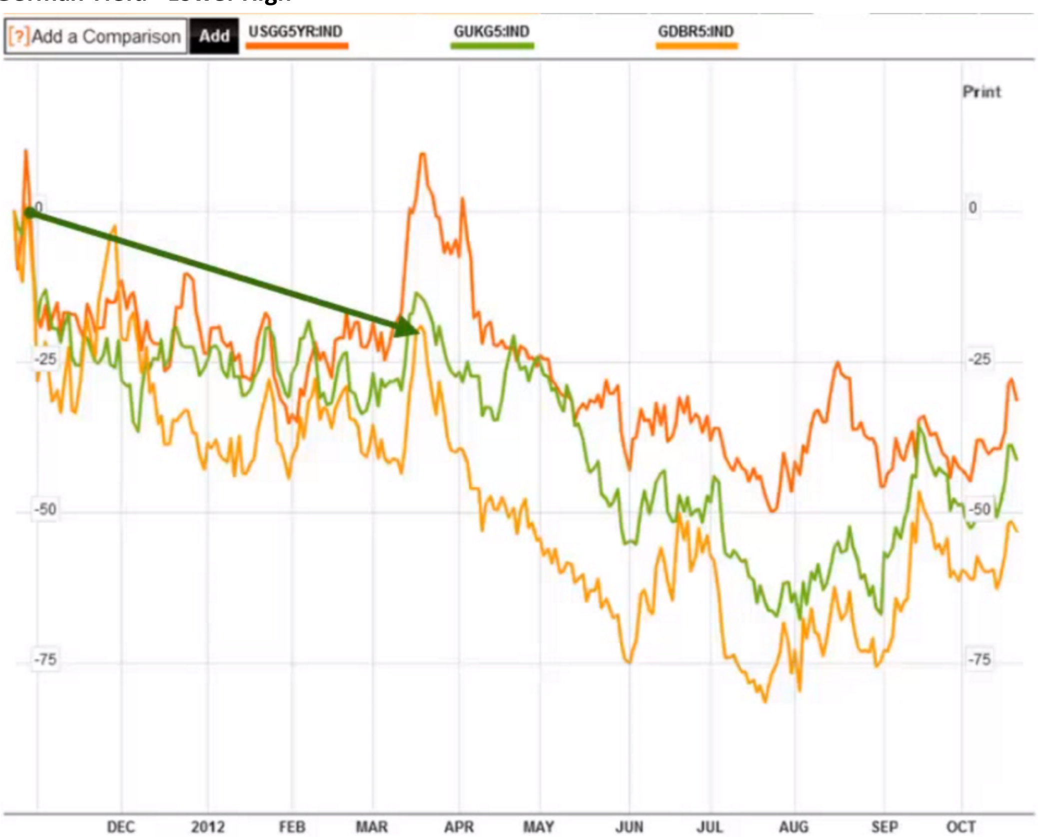
US Yield - Modestly higher high



UK Yield - Lower High



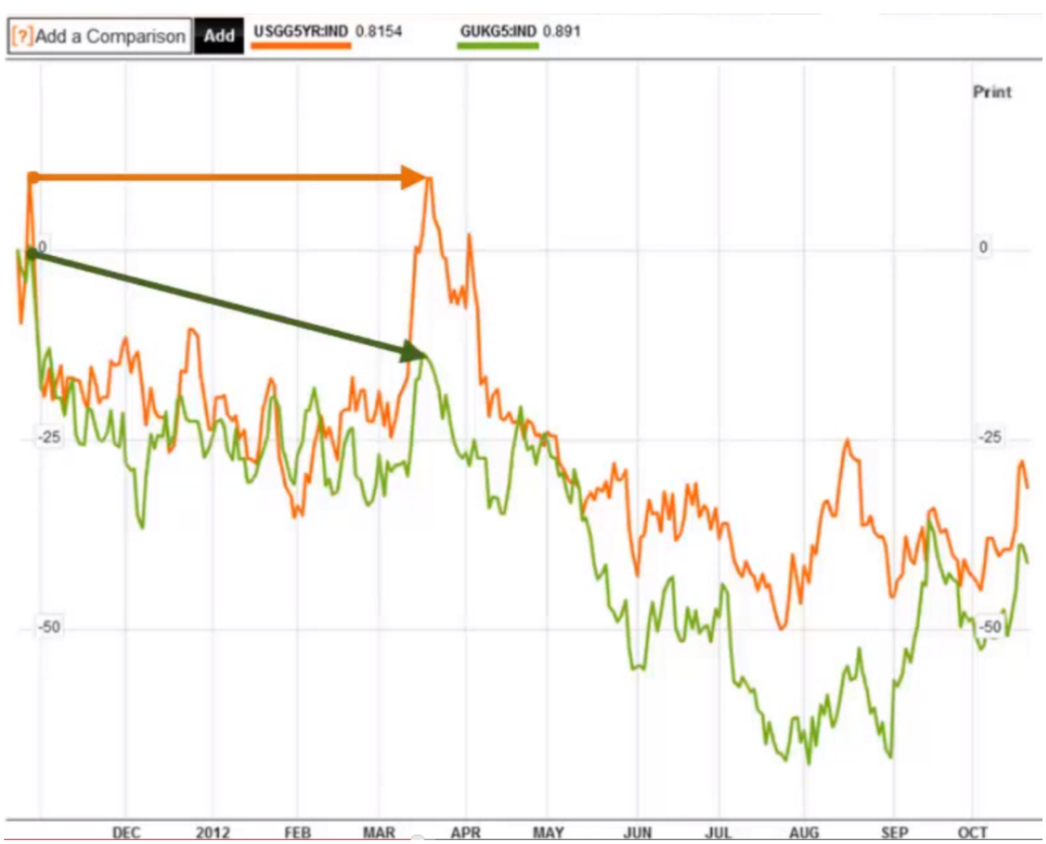
German Yield - Lower High



- This SMT divergence is confirmation that there is weakness underway going into April. We see the weakness translated in the form of these overlays.
- You can see it a little more clearly when you take the UK yield off the chart. Below shows the SMT divergence between the German 5 year yield and US 5 year yield:



- The US yield was able to make a higher high while the German yield was unable to do the same.
- Seeing this divergence adds confidence that we should be seeing lower Cable & Fiber prices when the Spring seasonal tendency should be coming underway.
- Below you can see the same thing happening between the US 5 year yield and the UK 5 year yield:



- Below the German and UK yields show divergence with each other as well:



- Seeing this going into where the Fiber was actually trading between the 2 red lines below:



Barchart.com > Select a commodity [USDX] (you **don't want cash**), click the top contract with a month (the closest one to today's date) > Customize Chart > Weekly Nearest (this will give you a weekly chart using the nearby contract **always**) > Make sure it says total volume.

- This chart is derived from the nearest contract month of the USDX.
- We don't need to pay attention to volume, but there is no way to take it off so you just have to look past it at the

purple open interest line.

- Below we have an uptrend and then a retracement into a consolidation:



- The time of the year is March, April, May (spring time) and there is an OTE long from the range low to the range high as illustrated below:



- Utilizing this concept of weekly ranges and seasonal tendencies, typically in the Spring time we see a weakness come into the marketplace in the form of the British Pound making a seasonal high in April-May, and then trading down into the Summer months. That will be mirror imaged in reverse for the US Dollar. The US Dollar should rally at this same time frame.
- There is a sharp drop in Open Interest during the consolidation. This is the Commercials tipping their hand that this is no longer going to be staying within the small trading range. We know that they expect higher prices because Open Interest is declining.
- Open Interest declining in a consolidation means Commercials are lessening their short positions and expect higher prices.

- By itself that is wonderful, but how do you confirm that? Scroll down and add the Commitment of Traders Line Chart on to your graph.
- In that same time frame when Open Interest drops, you can see that the Commercials are really reducing their net shorts based on the COT data. Price is also trading at a key support level, the 79 big figure:



- You can see the high unfolding in that same time frame on the British Pound.



- You can see an OTE short setting up from a prior high to the last swing low below, a rapid increase in Open Interest, and we also took out an old high:



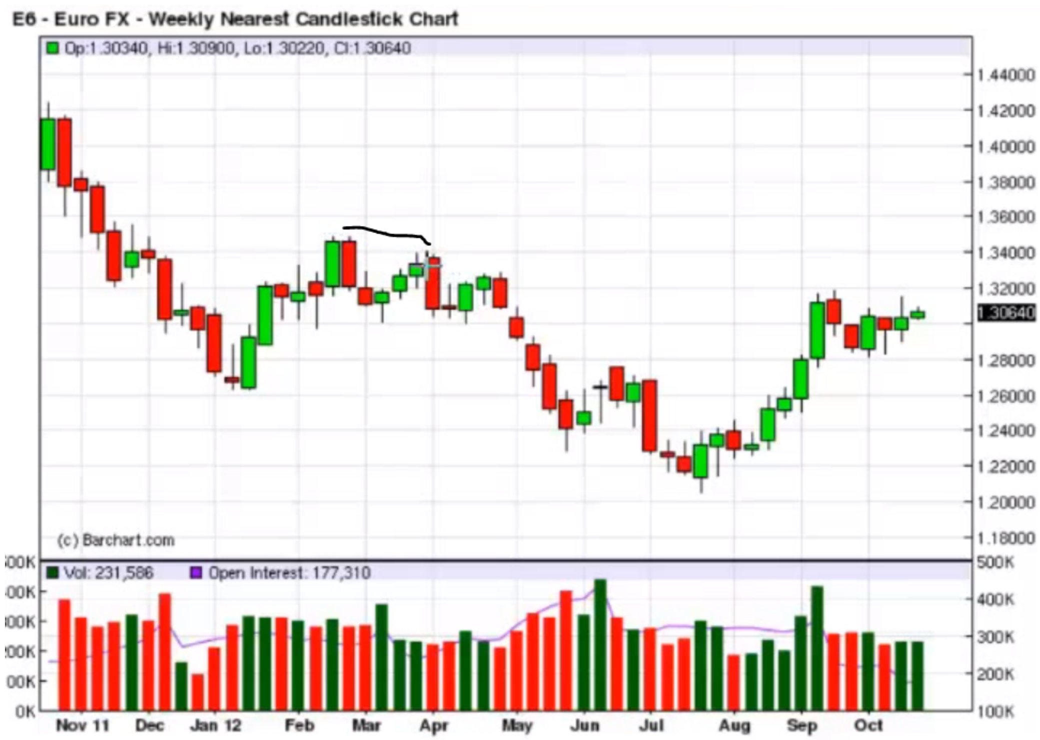
- Now we should look for Commercial traders to be net short, adding to their short positions, or rapidly reducing their net long positions:



- We have confirmed 2 sides of the market by this point, the US Dollar and the British Pound. Now we want to look and

see if the Euro supports what we are seeing in those 2 areas of the market.

- Below we see that the Euro was unwilling to make a higher high. There is a divergence between the 2 pairs during a seasonal time when we expect the Cable & Fiber to decline and the US Dollar to rally. In the Euro chart below we also see it trading in a trading range as Open Interest is increasing. An OTE short is also present going into April.



- Now we will add the COT line chart and it is kind of acting like divergence where we see the confirmation on the US Dollar and the British Pound, but we don't see the net short or reduction of longs in the Euro. It looks like the Commercials were trying to catch the low that formed in mid-July.



- Zoomed out a little bit, we can actually see that Open Interest was increasing while in a trading range while the Commercials were slightly reducing the net longs:



- Looking at the Futures data gives us the larger macro view in addition to the interest rate yields we were looking at before. We now have a sell program in effect in which we would start looking for only shorts.
- At the same time we would look for weaknesses in the stock indices to indicate a risk off scenario.
- In April the Dow made a modestly higher high:



- While the daily chart on the S&P 500 failed to make this same high in that time frame:

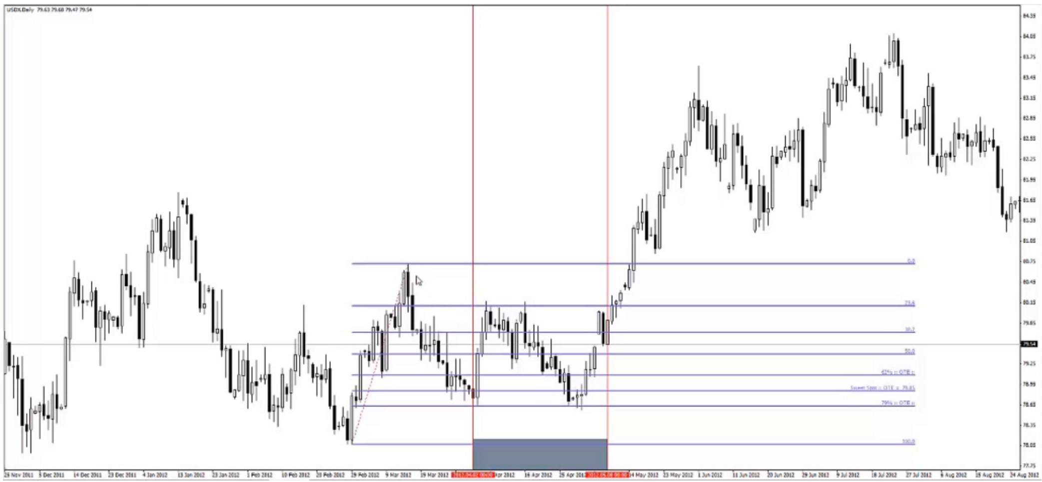


- The NAZDAQ also failed to make this higher high:



- DOW theory says that there is waning momentum and not to be so aggressive in terms of buying because you may see a withdrawal or retracement lower.

- Below you can see the US Dollars full rally as a result of this analysis:



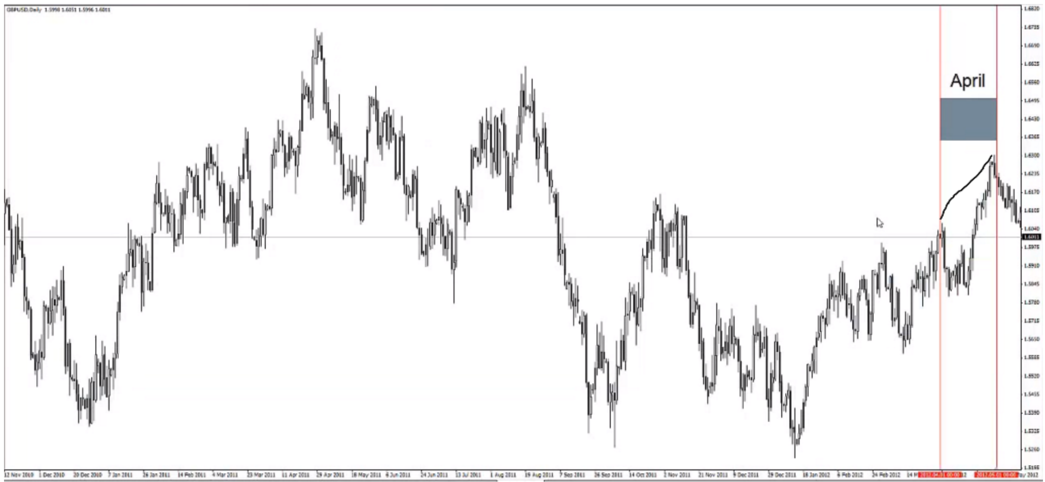
- Once price broke above the high that the Fib is drawn to above, that swing is fine to use targets for, but you should look to the left side of the chart and see what the larger magnitude price swing is that we are working within for targets, we look for the 127% and 162% extensions and can see it nails the 162% extension:



- This should illustrate the value of using a higher macro type view for trading.
- Fiber unwilling to make a higher high at the same time:



- Cable was able to make a higher high, so we have SMT divergence on the daily chart:



- Usually the Fiber & Cable trade in sync, but the Fiber was posting up much weaker technicals across the board. There was no interest whatsoever in going long in the Fiber (the Cable did make a higher high and the Fiber didn't). The Fiber was the weaker market of the 2 sisters. This is when you look for the old low to be traded to in the Fiber. The Cable was relatively stronger of the 2 pairs. Short-term traders could have been buying the Cable in the short-term.
- The Cable was retracing into a larger time frame OTE:



- Even though the Cable was bullish in comparison to the Fiber, we were going into a time frame where price should have been running out of steam and was approaching a high time frame OTE converging with the 1.63 big figure.
- The US Dollar barely made a lower low and the Cable confirmed this with a higher high, but the Fiber did not.
- Below is an example of a really nice short trade on the Fiber and what you should have targeted:



- When you have a weekly swing point, that's when you see tons of acceleration in price dropping from a swing high.
- When market structure breaks against you, you can reasonably expect a retracement (in your favor at this point) into an OTE to collapse your trade for a much smaller loss or to have less of your profits eaten up.